

Message Text

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PAGE 01 JAKART 08849 070451Z

17

ACTION EA-09

INFO OCT-01 ISO-00 EB-07 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 FPC-01 H-02 INR-07 INT-05

L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06 SAM-01

OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 FEA-01 PA-01

PRS-01 /101 W

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P R 070340Z JUL 76

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC PRIORITY 5478

INFO AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

AMCONSUL HONG KONG

AMCONSUL MEDAN

AMCONSUL SURABAYA

C O N F I D E N T I A L JAKARTA 8849

HONG KONG PASS TREASURY REP

EO 11652: GDS

TAGS: ENRG IS

SUBJECT: GOI-OIL COMPANY DISCUSSIONS

REF: JAKARTA 8324

1. DISCUSSIONS WITH PRODUCTION-SHARING COMPANIES HAVE MOVED INTO THIRD WEEK WITH NO RESULTS YET ACHIEVED. EACH OF THE COMPANIES (AS REPORTED IN PARA 1 REFTEL) HAS HELD INDIVIDUAL SESSIONS WITH OFFICIALS FROM DEPARTMENTS OF FINANCE AND MINING. GOI SIDE NOW LED BY GOZALI, SECRETARY TO PERTAMINA BOARD OF COMMISSIONERS, WHO MOVES DIRECTLY INTO FRAY FOR FIRST TIME. GOZALI HAS BEEN BACKSTOPPING BELEAGUERED OIL AND GAS DIRECTOR WIJARSO WHO JUST COMPLETED TWO AND ON-HALF MONTHS OF GRUELING NEGOTIATIONS WITH JAPANESE ON LNG LOAN. COMPANIES ARE MEETING

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PAGE 02 JAKART 08849 070451Z

TIATIONS WITH JAPANESE ON LNG LOAN. COMPANIES ARE MEETING

THIS WEEK WITH PERTAMINA PRESIDENT HARYONO AND WIJARSO
IN WHAT APPEARS TO BE CRUCIAL SHOWDOWN.

2. SURVEY OF COMPANIES INDICATES UNUSALLY STRONG
OPPOSITION TO GOI PROPOSALS AS OUTLINED BY SADLI JUNE 18.
COMPANIES PARTICULARLY OBJECT TO GOVERNMENT'S SCHEDULE
OF CAPITALIZATION AND DEPRECIATION WHICH ONLY ALLOWS THEM
TO WRITE OFF COSTS ON STRAIGHT LINE, LINEAR BASIS OVER
PERIOD RANGING FROM 4 TO 24 YEARS. COMPANIES ARGUE
THAT THIS SCHEDULE IS NOT REALISTIC SINCE IT DOES NOT
TAKE INTO ACCOUNT FACT THAT MANY OFFSHORE FIELDS HAVE
PRODUCING LIFE OF ONLY FIVE TO SEVEN YEARS. FROM
COMPANIES' POINT OF VIEW, BETTER SYSTEM WOULD BE AC-
CELERATED DEPRECIATION SCHEDULE WHICH WOULD ALLOW THEM
TO RECOVER COSTS DURING LIFE OF ASSET. SECOND MAJOR
CRITICISM CONCERNS RETROACTIVITY. COMPANIES CLAIM THAT
GOI, NOT COMPANIES, HAS CAUSED DISCUSSIONS TO DRAG ON
INTO JULY. COMPANIES HAVE BEEN TOLD THAT IS REMAINS
PRESIDENT SUHARTO'S WISH TO HAVE SETTLEMENT IN PLACE
THIS FISCAL YEAR. THIRD POINT OF CONTENTION IS OVER
PROPOSED 85/15 PROFIT SPLIT WHICH SEVERAL COMPANIES
ARGUE WOULD PACE THEM IN NEGATIVE CASH FLOW POSITION
ALMOST IMMEDIATELY. ALTHOUGH RUMORS SWIRL ABOUT CON-
CERNING POSSIBLE "PULLOUTS", NO COMPANY SO FAR AS WE
KNOW HAS MADE ACTUAL THREAT TO GOI TO WALK AWAY FROM
INDONESIA. COMPANIES INDICATE THEY WILL TABLE ALTER-
NATE PROPOSALS THIS WEEK.

3. INTERESTING SIDE PLAY IN THIS AFFAIR IS DISAGREEMENT
WHICH HAS DEVELOPED BETWEEN DEPARTMENT OF MINES/PERTAMINA
OFFICIALS AND BAPPENAS (ECONOMIC PLANNING BOARD)
OVER PROPOSED TERMS. ALTHOUGH GOVERNMENT PROPOSAL WAS
INITIALLY PREPARED BY PRICE-WATERHOUSE ADVISORS, IT
WAS SUBSEQUENTLY MODIFIED BY BAPPENAS OFFICIALS, IN-
CLUDING REPORTEDLY MINISTER WIDJOJO HIMSELF. BAPPENAS
CHANGED TREATMENT ON IDC (INTANGIBLE DRILLING COSTS)
SO THAT WRITE-OFF IN PRE-PRODUCTION STAGE COULD BE UN-
LIMITED (AS LONG AS EXPENSED IN YEAR OF EXPENDITURE).
OTHER CHANGE CONCERNED REVISION OF DEPRECIATION SCHEDULES
WHICH MIGAS AND PERTAMINA FEEL IS UNREALISTIC. IN
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PAGE 03 JAKARTA 08849 070451Z

REFERRING TO REVISED GOVERNMENT POSITION MIGAS DIRECTOR
WIJARSO TOLD EMBOFF "PERSONALLY I DON'T LIKE IT." HE
FEELS, HOWEVER, THAT HE HAS LITTLE CHOICE BUT TO PRESS
AHEAD, HOPEFUL HE CAN CONVINCE HIS NON-OIL COLLEAGUES
IN GOVERNMENT THAT SOME CHANGES IN POSITION WOULD BE IN
GOI'S BEST INTEREST.

4. ONE FACTOR THAT HAS APPARENTLY SOBERED GOI IN

RECENT DAYS IS QUICK SURVEY OF COMPANIES THAT INDICATES
POSSIBLE SHARP DROP IN OPERATING RIGS DURING LATTER
PART OF YEAR IF NEW TERMS ARE IMPOSED ON COMPANIES.
COMPANIES COLLECTIVELY RESPONDED THAT NUMBER OF OFF-
SHORE RIGS, CURRENTLY FLUCTUATING BETWEEN 10-6, COULD
BE CUT IN HALF BY REVISIONS IN PRODUCTION-SHARING
AGREEMENTS.
NEWSOM

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